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SUBMISSION *R-15-4*

OF

WOODLEY CANADIAN OIL COMPANY

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Exhibit R-15-4

WOODLEY CANADIAN OIL COMPANY

SUBMISSION

TO THE

ROYAL COMMISSION ON ENERGY

March 25, 1958

Sandlin
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Powell
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Sample.

March 25, 1958

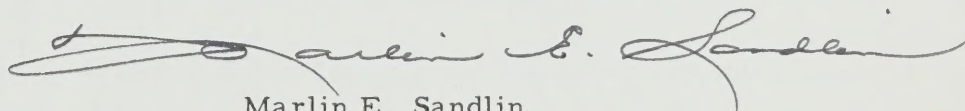
The Royal Commission on Canada's Energy Resources.

Gentlemen:

We submit herewith on behalf of Woodley Canadian Oil Company a brief on the marketing of Fosterton type crude oil produced in Southwestern Saskatchewan and Midale type crude oil produced in South-eastern Saskatchewan.


The purpose of this submission is to acquaint the members of the Commission with the problems encountered, the risks assumed, the obligations made, and the pricing policy determined in the marketing of these crude oils.

Respectfully yours,



Marlin E. Sandlin
President

For and on behalf of Woodley Canadian Oil Company



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Introduction:

Woodley Canadian Oil Company was incorporated under the laws of the State of Delaware in November, 1952. After its incorporation, the Company was registered and licensed to do business in the Provinces of Saskatchewan and Alberta, Canada, and has since that time conducted exploration activities for oil and gas in said provinces and has carried on the business of producing crude oil in Southwestern and Southeastern Saskatchewan.

Woodley Canadian Oil Company is a wholly owned subsidiary of Woodley Petroleum Company, a Delaware corporation, with its principal office in Houston, Texas, and is the successor in interest in Canada to Western Prairie Exploration Co., Ltd.

Woodley Canadian Oil Company is a stockholder in South Saskatchewan Pipe Line Company and its parent company, Woodley Petroleum Company, is a stockholder in Great Northern Oil Purchasing Company, Minnesota Pipe Line Company and Great Northern Oil Company, each of which companies plays a significant role in the marketing program for Fosterton type crude oil. Woodley Canadian Oil Company is also a stockholder in Producers Pipelines Ltd. The latter company and its wholly owned subsidiary, Westspur Pipe Line Company, and Great Northern Oil Purchasing Company, Minnesota Pipe Line Company and Great Northern Oil Company play significant roles in the marketing pro-

Handwritten notes:
Pres - Woodley Can.
S. Sask Pipeline
Gr Northern Oil Purch
Woodley Petroleum
Pres - Minnesota
Gr Northern Oil Co

gram for Midale type crude oil.

South Saskatchewan Pipe Line Company was incorporated under the laws of the State of Delaware on November 6, 1953. Immediately after its incorporation, the Company was registered and licensed under the Companies Act of the Province of Saskatchewan and has since that time carried on the business of operating a crude oil pipe line system in Saskatchewan with its principal office located at Regina. The other stockholders of South Saskatchewan Pipe Line Company are Mobil Oil of Canada, Ltd., and Sinclair Pipe Line Company. — 50%

Great Northern Oil Purchasing Company was incorporated under the laws of the State of Delaware on May 9, 1955. This Company is registered and licensed to do business in the Provinces of Saskatchewan and Manitoba and is carrying on the business of purchasing crude oil in those provinces for re-sale in the domestic and in the world markets. The other principal stockholder of this Company is Sinclair Crude Oil Purchasing Company. The principal office of the Company is located at Regina.

Producers Pipelines Ltd., is incorporated under the laws of Saskatchewan with its principal office at Regina. This Company together with its wholly owned subsidiary, Westspur Pipe Line Company, conducts

a crude oil pipe line system in Southeastern Saskatchewan. The other stockholders in this Company are also crude oil producers.

Minnesota Pipe Line Company was incorporated under the laws of the State of Delaware on December 2, 1953. Immediately after its incorporation, the Company was qualified to do business in the State of Minnesota and has since that time carried on the business of operating a crude oil pipe line system in that State. The principal stockholders of this Company are Woodley Petroleum Company and Sinclair Pipe Line Company. The principal office of this Company is located at Saint Paul, Minnesota.

Great Northern Oil Company was incorporated under the laws of the State of Delaware on February 2, 1951. After its incorporation, the Company was qualified to do business in the State of Minnesota, among other states in the United States, and is registered and licensed under the Companies Act of the Province of Saskatchewan. This Company is carrying on the business of operating a petroleum refinery at Pine Bend, Minnesota, where its principal office is located. The principal stockholders are Woodley Petroleum Company and Sinclair Refining Company.

History:

Mobil Oil of Canada, Ltd., Woodley Canadian Oil Company and Sinclair Canada Oil Company (as successor in interest to Southern Production Company, Inc.) are pioneer producers of Fosterton type crude oil in Southwestern Saskatchewan. These companies have carried on joint operations in Saskatchewan for a number of years and are the discoverers of the Fosterton Field, Cantuar Field, Success Field, South Success Field, North Premier Field, Midway Field, Southeast Midway Field, Verlo Field and the Battrum Field.

Soon after the early discoveries were made, it became apparent that markets did not exist for the quality and quantities of Fosterton type crude that these fields were capable of producing for the principal reason that the petroleum refineries in Canada and in the Great Lakes Area of the United States were not designed to process the high-sulphur crude oil of medium gravity. These companies realized that they must provide their own market. To provide this market, the companies again pioneered in the building of transportation facilities to transport this Fosterton type crude oil to market. These facilities comprise the present South Saskatchewan Pipe Line System, consisting of crude oil gathering systems in the Fosterton, Cantuar, Success, South Success, and Bat-

trum Fields and the crude oil gathering systems in the Dollard, Instow, Bone Creek, Gull Lake and North Premier Fields connecting with the Dollard extension line from the Dollard Field to the Cantuar Station; the 16" main trunk line from the Cantuar Station to Regina, a distance of approximately 156 miles, connecting with the Interprovincial Pipe Line System and to domestic refineries at Moose Jaw and Regina; the Cantuar pump station of modern design with storage capacity of 160,000 barrels; modern office building and warehouse located at Swift Current; and all other equipment and facilities necessary for the maintenance and operation of an efficient crude oil pipe line system.

Further, two of these stockholder companies, Woodley Canadian Oil Company (through its parent company, Woodley Petroleum Company) and Southern Production Company, Inc. (predecessor in interest to Sinclair Pipe Line Company), together with minority stockholders, constructed the crude oil pipe line facilities of Minnesota Pipe Line Company in the State of Minnesota to transport such crude oil from a take-off point on the Lakehead Pipe Line System at Clearbrook, Minnesota, to Pine Bend, Minnesota. The Minnesota Pipe Line System comprises a 16" main trunk line from Clearbrook to Pine Bend, a distance of approximately 256 miles, with pump stations of modern design located at Clear-

brook and at Little Falls, and all other equipment and facilities necessary for the maintenance and operation of an efficient crude oil pipe line system.

Further, the same stockholder companies, Woodley Canadian Oil Company (through its parent company, Woodley Petroleum Company) and Southern Production Company, Inc. (predecessor in interest to Sinclair Refining Company), together with minority stockholders, constructed a petroleum refinery of modern design with a maximum capacity of approximately 33,000 barrels per calendar day at Pine Bend, Minnesota. This refinery was designed and constructed for the primary purpose of refining the quality and gravity of crude oil produced from the above named fields.

Then, as Midale high-sulphur crude came into production in substantial quantities in Southeastern Saskatchewan, along with crude oils of higher gravities and lower sulphur content in that region, Woodley Canadian Oil Company joined with Southern Production Company, Inc. (predecessor in interest to Sinclair Pipe Line Company), and other crude oil producers to construct the pipe line system in Southeastern Saskatchewan from Midale Station to Cromer Station in Manitoba connecting with the Interprovincial Pipe Line System for the purpose of pro-

viding a market outlet for crude oil in Southeastern Saskatchewan. These pipe line facilities, including the gathering system, pump stations, and all other equipment, presently comprise the pipe line system of Producers Pipelines Ltd., and its wholly owned subsidiary, Westspur Pipe Line Company.

Since the petroleum refinery of Great Northern Oil Company of Pine Bend was designed to process high-sulphur crude oil of medium gravity, this refinery became a ready market for quantities of Midale type crude oil on completion of the pipe line system in Southeastern Saskatchewan.

Financial Commitments:

The petroleum refinery of Great Northern Oil Company at Pine Bend has been constructed at a cost of approximately \$27,000,000, without consideration being given to working capital of at least \$2,500,000. The financing of this refinery has required equity capital in the amount of \$4,663,659, plus \$3,515,000 derived from the sale of subordinated debentures in the principal amount of \$3,700,000, and bank loans in the aggregate amount of \$19,000,000.

The pipe line system of Minnesota Pipe Line Company was

constructed at an original cost of approximately \$12,800,000. The financing of these facilities involved \$1,505,000 of equity capital and loans from banks and an insurance company aggregating the sum of \$12,400,000.

The pipe line facilities of South Saskatchewan Pipe Line Company have been built at a cost of approximately \$14,000,000. The stockholders supplied about \$2,720,000 and approximately \$9,880,000 was obtained through bank loans. The principal of the outstanding debt due the banks is approximately \$7,855,000.

Contractual Obligations:

As an inducement to and as collateral for loans for the financing of the pipe line facilities and refining facilities for the marketing of Fosterton type crude oil, it was necessary for long term contractual commitments to be made.

Mobil Oil of Canada, Ltd., Woodley Canadian Oil Company, and Sinclair Canada Oil Company are committed to sell and Great Northern Oil Company is committed to buy up to 20,000 barrels per calendar day of Fosterton type crude oil for a ten year period commencing June 1, 1955.

Great Northern Oil Purchasing Company is obligated by con-

tract with Tidewater Oil Company, The Ohio Oil Company, Columbian Carbon Company and The Atlantic Refining Company to purchase for Great Northern Oil Company and for its own account up to 10,000 barrels per calendar day of Fosterton type crude oil from the Dollard Field for a ten year period beginning October 1, 1956. At the same time, Great Northern Oil Purchasing Company entered into a through-put agreement with South Saskatchewan Pipe Line Company to tender or cause to be tendered to South Saskatchewan at the wellhead for transport all of the crude oil which it shall purchase and receive from such companies in the Dollard Field.

Great Northern Oil Company entered into a through-put agreement with South Saskatchewan Pipe Line Company wherein it agreed to tender or to cause to be tendered for gathering and transport all of the crude oil purchased by or for Great Northern in the area served by the pipe line in quantities per calendar month equivalent to the average rate of not less than 15,000 barrels per calendar day for the period June 1, 1955, to December 31, 1955; at the average rate of not less than 20,000 barrels per calendar day for the period January 1, 1956, to December 31, 1965; and, all of the crude oil purchased for the period January 1, 1966, to December 31, 1975.

Great Northern Oil Company also entered into a through-put agreement with Minnesota Pipe Line Company for a period of twenty years whereby it agreed to tender for shipment a minimum through-put of Fosterton type or other types of crude oil of 15,000 barrels per calendar day for the period July 1, 1955, to December 31, 1955, and 20,000 barrels per calendar day for the period January 1, 1956, to December 31, 1975. Further, Great Northern agreed that for the life of the through-put agreement and the stockholders of Minnesota Pipe Line Company agreed that so long as any indebtedness is due the banks and the insurance company to guarantee Minnesota Pipe Line Company a gross revenue equivalent to 23.4 cents per barrel (exclusive of line loss) times 23,000 barrels per calendar day, the obligation being divided 23.4 cents times 20,000 barrels per calendar day for Great Northern and 23.4 cents times 3,000 barrels per calendar day for the Minnesota stockholders.

Great Northern Oil Company also committed itself by long term contract to sell and deliver to Socony Mobil Oil Company, Inc., in the United States substantial quantities of refined products from its refinery at Pine Bend. The prices which Socony will pay Great Northern for these products are tied to the cost of Fosterton type crude oil

laid down by pipe line at Pine Bend.

Pricing Policy:

It is fundamental that for crude oil to be sold in the world market its price must be competitive with crude oils of the same or similar quality and gravity sold in such market.

The market for refined products in the Twin Cities Area of Minnesota is competitive with the market for refined products in the Chicago Area and in the Mid-Continent Area of the United States. It was determined early, therefore, that the laid down cost of Fosterton type crude oil at Great Northern's refinery at Pine Bend must be competitive with crude oil of similar quality and gravity laid down by pipe line in the Chicago Area until such time as crude oil of similar quality and gravity is laid down in the Twin Cities Area by pipe line in substantial quantity to other purchasers to establish another market value. This pricing policy was established and has been consistently followed for Fosterton type crude oil laid down at Pine Bend. The wellhead price paid by Great Northern Oil Purchasing Company, as agent for Great Northern Oil Company and on its own account, has therefore been the laid down cost by pipe line in the Chicago Area of reference crudes of similar quality and

gravity less the cost of gathering and less all costs, including United States Import Duty, of transporting such crude oil to the refinery at Pine Bend.

The same pricing policy has been followed with respect to all Midale type crude oil purchased by or for Great Northern Oil Company.

Markets:

The basic markets for Fosterton type crude oil in the future will continue to be those markets created by long term contracts with Great Northern Oil Company and Great Northern Oil Purchasing Company, after taking care of the requirements in limited quantities of the domestic refineries at Moose Jaw and Regina. It is recognized, of course, that with the availability of Fosterton type crude oil in greater volume, the demand for additional quantities of Fosterton type crude at points in Canada and in the United States along the Interprovincial Pipe Line and the Minnesota Pipe Line Systems may increase as refining facilities are designed to handle this quality and gravity of crude oil.

While the basic market initially for Midale type crude oil was the refinery of Great Northern Oil Company at Pine Bend, the refineries in the Duluth Area of Minnesota and Wisconsin have also become a

substantial market outlet for this high-sulphur crude oil of medium gravity. It is contemplated that as additional refining facilities are designed to process crude oil of this quality and gravity, the demand in the market outlets along the Interprovincial and Lakehead Pipe Line System and the Minnesota Pipe Line System will increase substantially.

The existing markets for Fosterton type crude oil at Pine Bend, Minnesota, currently at the rate of approximately 23,000 barrels per calendar day, after making allowance of 5,000 barrels per day for the domestic refineries at Moose Jaw and Regina and 2,000 barrels per day for shipment to Clarkson, and the existing markets for Midale type crude oil at Pine Bend, currently at the rate of approximately 9,000 barrels per calendar day, and at points along the pipe line system of Lakehead Pipe Line Company, Inc., in the United States at the rate of approximately 8,600 barrels per day, of course, depend for their existence and continued growth upon a favorable export policy for crude oil from Canada to the United States and a favorable import policy for crude oil from Canada into the United States.

Conclusion:

Woodley Canadian Oil Company and its associates have entered

upon a long range program of exploration for oil and gas, production of oil and gas, transportation of crude oil, marketing of crude oil in the world market, refining Canadian crude oil and selling products manufactured therefrom in the world market. This long range program has been undertaken at a substantial cost and great risk, based upon faith in the provincial and dominion governments of Canada and of the government of the United States and upon our confidence in those governments that we would receive fair and equitable treatment for the risks assumed in the creation of markets for Canadian crude oil far removed from the points of discovery and production.

The development of the oil and gas resources of Western Canada is in its infancy. We cannot urge too strongly the maintenance of a healthy climate for private capital to continue to take the initiative and assume the great financial risks involved in the development of these resources, not only for the welfare and progress of all of Canada but also in the interest of western hemispheric defense and solidarity.

This healthy climate embraces the private ownership of the oil and gas reserves and of the transportation facilities therefor, reasonable regulatory practices, a liberal export policy, a tax policy designed to encourage and to provide an incentive for the development of

the oil and gas resources, broadening of the credit policies of lending institutions to enable the financing in Canada of the costly undertakings required for the development of these resources, the stabilization of the currencies of the United States and of Canada and the strengthening by mutual effort of the excellent trade relations between the United States and Canada.



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